

AR10

RIO ALTO EXPLORATION LTD.

1971 ANNUAL REPORT

OFFICERS

J. Poscente	—	President
D. W. Hilland	—	Secretary

DIRECTORS

J. Poscente	—	Calgary
D. W. Hilland	—	Calgary
R. J. Kirker	—	Calgary
H. B. Tiffin	—	Calgary
C. W. Byler	—	Calgary

BANKS

Royal Bank of Canada
Canadian Imperial Bank of Commerce

AUDITORS

Collins, Love, Eddis, Valiquette & Barrow

LAWYERS

McLaws of Company

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
Calgary, Alberta

HEAD OFFICE

920 - Three Calgary Place
Calgary, Alberta

TO OUR SHAREHOLDERS:

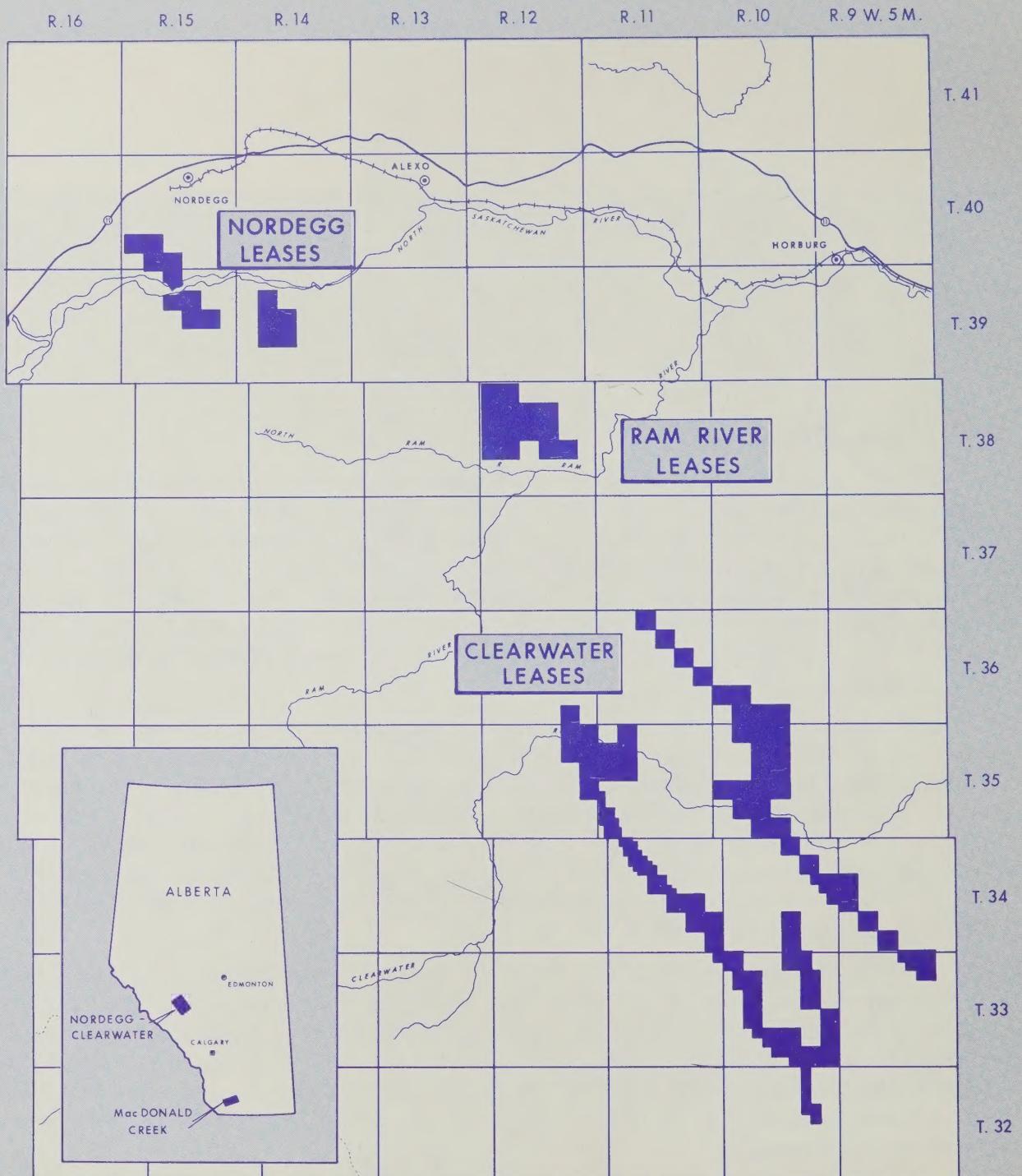
During 1971, our company maintained an active exploration and acquisition program. Funds generated by the sale of 300,000 treasury shares netted the company treasury \$96,000 while pre-production royalties from our Ram River coal properties together with the sale of interests in our Clearwater coal properties netted the company \$46,900. Exploration costs for the year were \$73,141 and acquisition costs \$7,480. The year ended with \$60,968 in working capital. Our plans are to add additional funds to the treasury by way of a further underwriting and the listing of our company's shares on a Western Canada stock exchange.

Of major importance to our company was its acquisition of an interest in three new properties appearing to have considerable potential: the "Sooke" copper prospect consists of 15,000 acres of CanPac mineral leases approximately 22 miles west of Victoria, British Columbia and 4 miles northwest of Jordan River Mines; the "Perry River" nickel-copper prospect comprising 768 claims located about 21 miles due south of Queen Maud Gulf on the Arctic Coast and the "Cornwallis" lead-zinc prospect covered by 27,720 acres of Crown Mineral Permit located on Cornwallis Island 45 miles due east of the Cominco/Bankeno lead-zinc ore body.

Your company's management will continue to operate under its policy of instigating or participating in the acquisition of raw mineral properties, conducting exploration within the company's financial and technical limits, and where possible and when deemed advisable, entering into agreements with companies having the financial and technical means to carry on the exploration and development of the properties. Management also intends to acquire small income producing properties in order to establish a cash flow sufficient to cover general operating costs.

Your company's management is of the firm opinion that its policy of maintaining a reasonable cash flow while devoting the majority of its time and energy to acquiring and maintaining interests over a number of diversified mining properties will ultimately ensure the successful growth of your company.

J. Poscente,
President.



ALBERTA COAL PROPERTIES

COAL INTERESTS – ALBERTA

MacDONALD CREEK – Rio Alto 100% Interest

The property consists of 2,720 acres of Alberta coal leases, located in Township 5, Ranges 4 and 5, West of the Fifth Meridian.

In the fall of 1970 a work program of geological reconnaissance and prospecting was carried out and the presence of coal bearing beds on the lands was confirmed. However, since the properties are a substantial distance from the company's other coal interests, an attempt will be made to farm out the properties.

NORDEGG-RAM RIVER COAL AREA – Rio Alto has a 12¢ per ton royalty covering 16,880 acres of Alberta coal leases.

These properties were farmed out to Consolidation Coal Company of Canada in the spring of 1970. Since that time, Consolidation has drilled a substantial number of test holes on the property and have informed Rio Alto that mineable reserves of coking coal were discovered on the 9,600 acre Ram River block which is located in Townships 39 and 40, Range 15, West of the Fifth Meridian. Consolidation have also advised that they plan to continue development drilling on the Ram River block and on other adjacent leases.

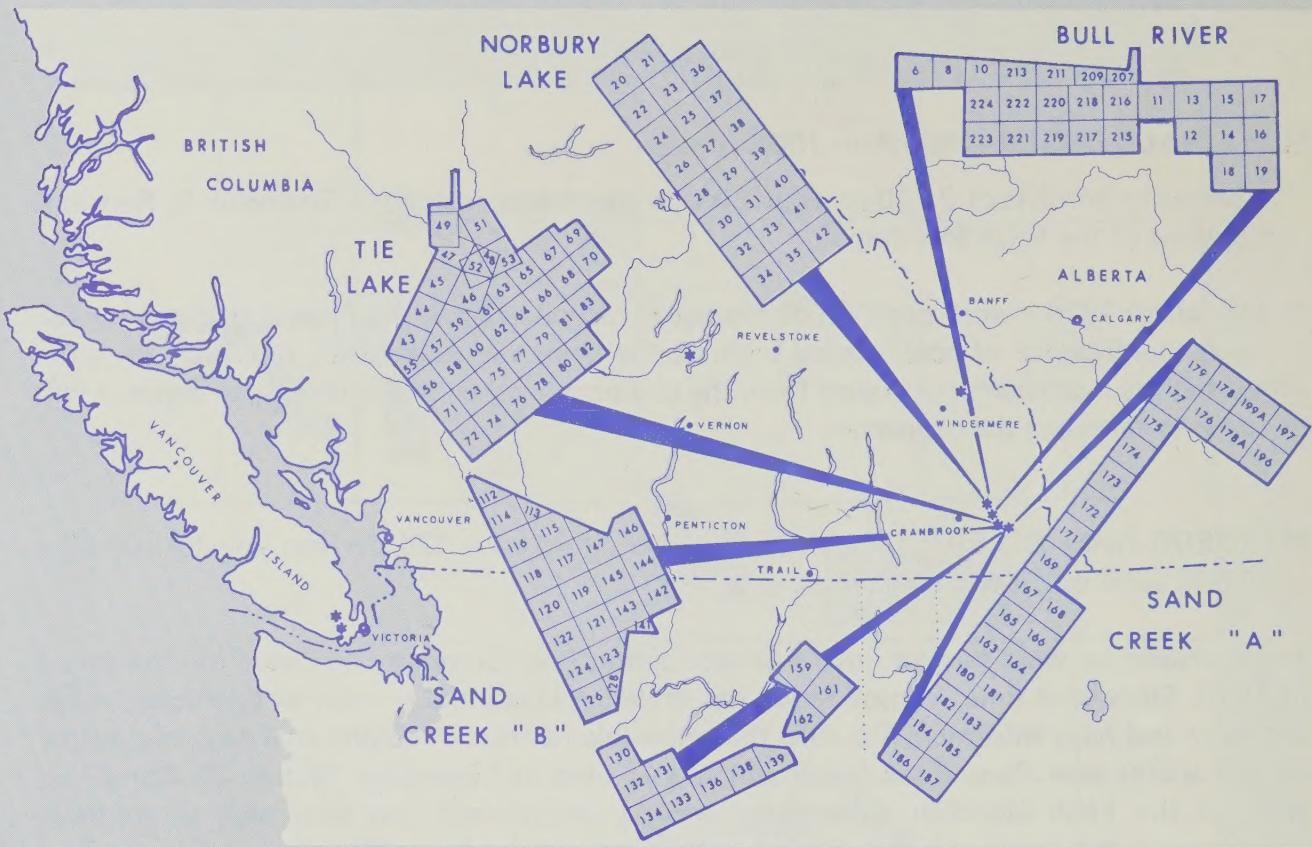
Rio Alto now receives \$18,000 per year in pre-production royalty payments from Consolidation Coal. Since the properties were acquired the company has received \$36,000 in pre-production royalty from Consolidation.

CLEARWATER AREA – Rio Alto had varying interests (between 16% and 50%) in 45,440 acres of Alberta coal leases which were farmed out to Clearwater Coal Ltd. The Rio Alto group retain a production royalty of 10¢ per ton until the recovery of the Farmee's capital costs at which time the royalty escalates to 25¢ per ton.

Work to date consists of geological mapping, trenching, induced polarization survey and drilling.

In 1971, the properties were sold to a large Italian company for a cash consideration of \$50,000 and a \$50,000 exploration program. To date, 6,142 feet of drilling has been conducted on the properties, the majority of which is located in the northern portion of Township 35, Range 10, West of the Fifth Meridian.

In a report by Mr. I.P. Dyson, Professional Geologist, and a recognized coal expert, he states that some 40 million tons of product coal have been discovered in three seams ranging in thickness from five feet to nine feet. Additional drilling is now in progress to obtain further quality control and tunneling for bulk samples may start this fall.



BULL RIVER CLAIM GROUP – Rio Alto Interest 33-1/3%

The Bull River base metal prospect consists of four blocks totalling 170 claims and is situated along the eastern margin of the Rocky Mountain trench, 14 to 26 miles east and east-southeast of Cranbrook, British Columbia.

Rio Alto and its partners staked the claims in 1970 on the basis of the similar geological environment to Placid Oil Company's copper ore body near the Bull River. This property is now on production at 750 tons per day. The claims are divided into four distinct blocks called the Norbury Group, Bull River Group, Tie Lake Group and Sand Creek "A" and "B" Group.

A geochemical survey conducted in 1971 delineated several areas of interest, the most interesting of which is located on the Bull River Group some 3,000 feet south of the Placid copper ore body. It is the intention of the company and its partners to carry out detailed geochemical and geophysical surveys over the areas of interest, high grade the claims held, and to let the less interesting claims lapse.

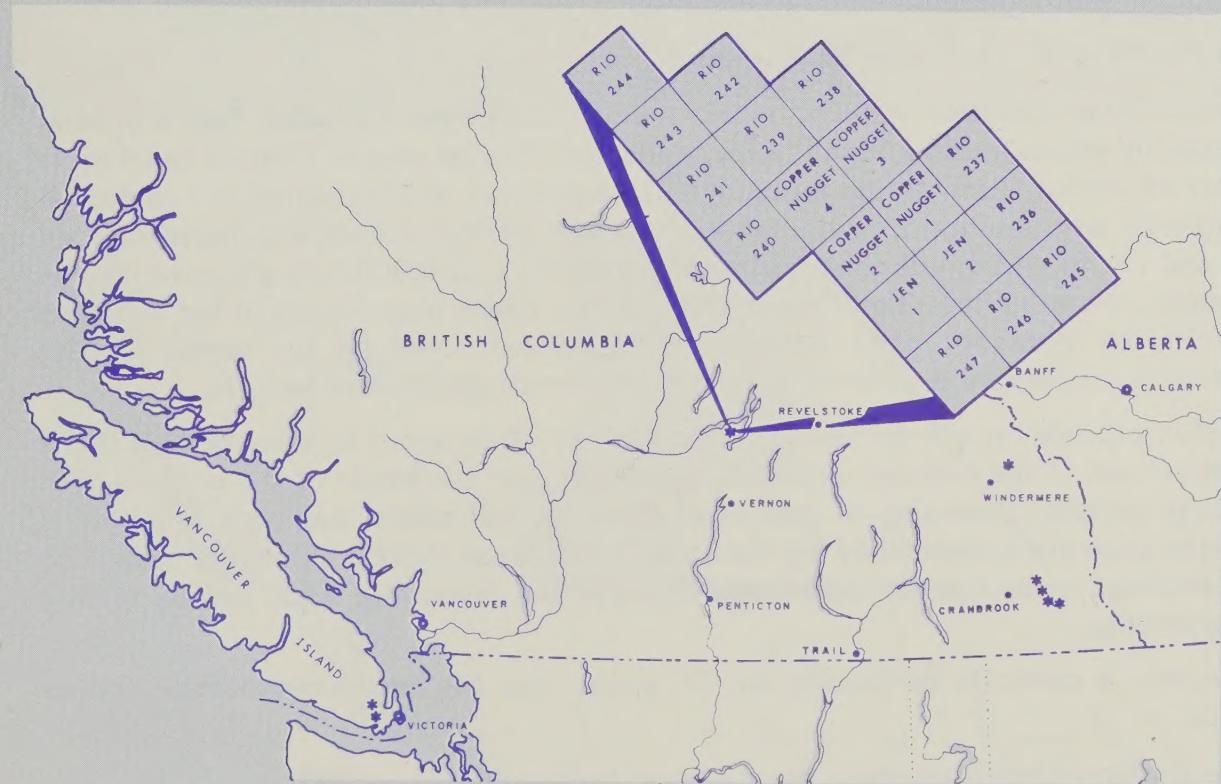
WHITE LAKE PROPERTY – Rio Alto 100% Interest

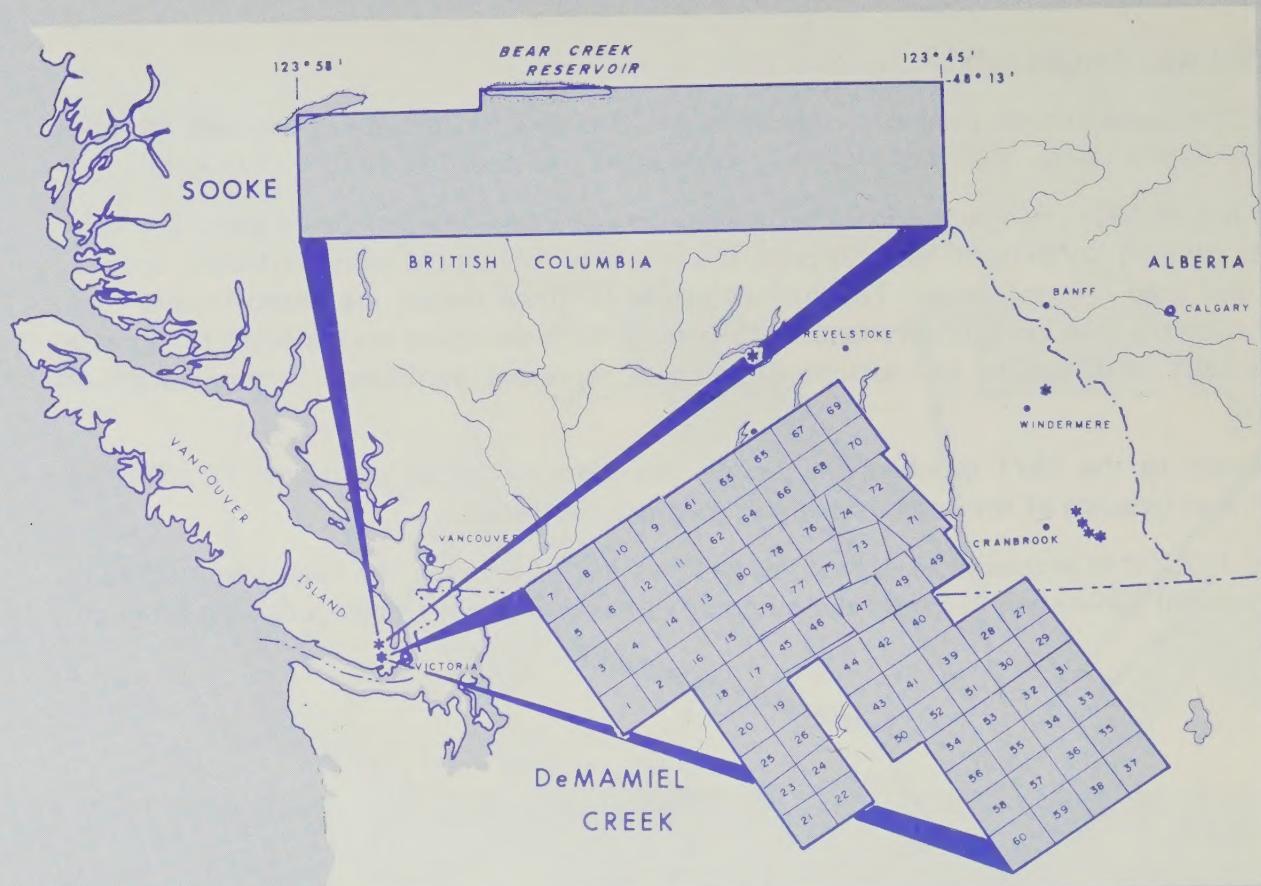
The White Lake copper prospect, consisting of 18 claims located approximately 15 miles north of Salmon Arm, B.C., was originally prospected and staked in 1970 by Rio Alto.

In the fall of 1971, Rio Alto conducted a geochemical survey which located a main zone of interest running north-north-west through the property cutting old adits containing copper, silver and gold mineralization. The surface values of these metals are exceptionally high considering the low ion mobility factor of the soils. As these values are expected to increase considerably with depth, the surface values may represent significant mineralization at depth.

Subsequent to the 1971 geochemical survey, Rio Alto staked an additional 12 claims to cover the extensions of the north-northwest geochemical trend.

During 1973, it is proposed to extend the geochemical survey over the new claims, conduct a geophysical survey and based on the outcome of the two surveys, begin a drilling program.





SOOKE PROPERTY – Rio Alto 100% Interest

The Sooke copper prospect acquired in 1971, consisting of two Canadian Pacific mineral leases covering approximately 15,000 acres, is located 22 miles west of Victoria and 4 miles northwest of Jordan River. In the spring of 1971 a program of prospecting and geological reconnaissance was conducted. In the fall a program of geological mapping, magnetometer, E.M 16 and I.P. surveying was conducted over a 2,000 foot by 5,600 foot grid covering one of the more interesting showings. Prospecting over the newly logged areas of the property resulted in the discovery of a number of mineralized zones on the leases. Copper geochemical anomalies are generally coincident with known geophysical features.

Very useful information was derived from the 1971 program and it is recommended that a modified version of the program should be continued over the whole of the property. An exploration package consisting of geological mapping, soil/stream sediment sampling is proposed to cover the remainder of the lease area. Those areas of preferential interest will be further explored using induced polarization surveys and favourable areas will be further tested by drilling.

The company is currently conducting an I.P. survey over the known geochemical copper anomalies.

DeMAMIEL CREEK PROSPECTS – Rio Alto 50% Interest

This property, consisting of 80 claims, was jointly staked by Rio Alto and TVI Mining Ltd. in 1972. The property is located immediately north of Sooke, B.C. and 2 miles north of the Norlex Mines Ltd. Sooke Peninsula property, on which a recent drilling program discovered favourable copper, gold, silver mineralization.

It is planned to commence exploration on the property this fall.

SWANSEA PROPERTY – Rio Alto 100% Interest

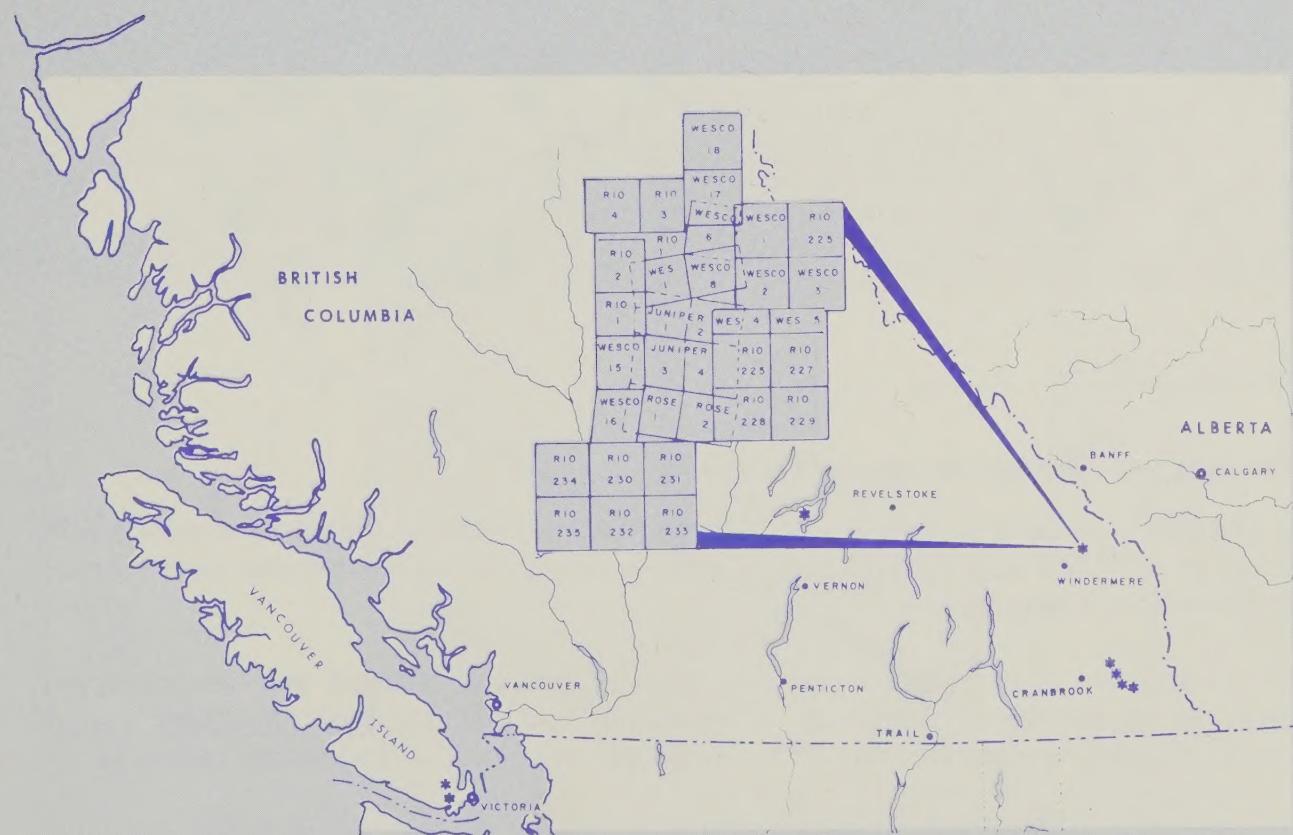
The Swansea copper prospect covered by 36 claims, is located on the southeast slope of Mount Swansea, 3½ miles northeast of the town of Windermere, B.C.

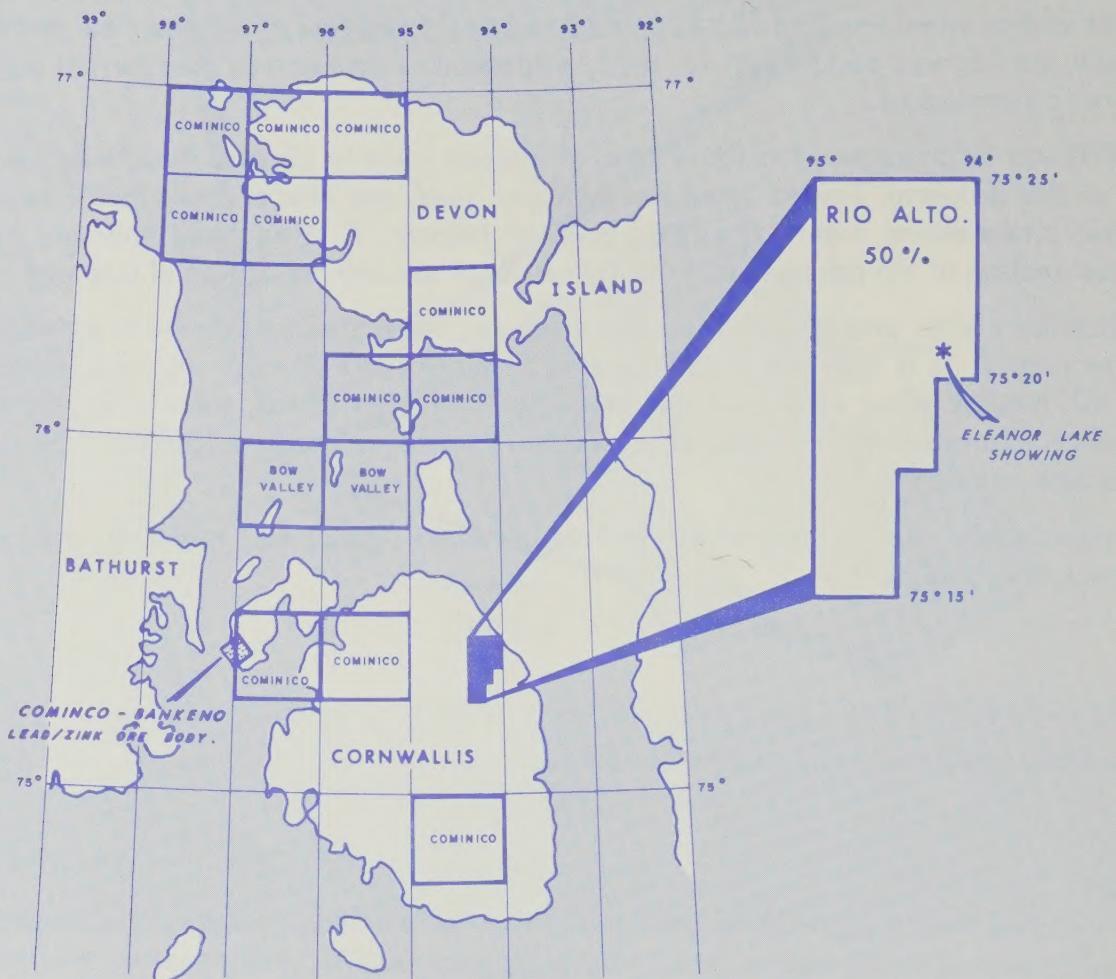
The first claims were acquired in 1970 and a program consisting of geochemical surveying and claim staking was conducted. In 1971, a biogeochemical survey was carried out and additional claims staked.

The 1970 and 1971 surveys located a zone of interest roughly circular in outline near the centre of the property. Several anomalous copper, lead, and zinc concentrations occur at structural intersections within the main zone of interest. A strong lead anomaly in the northwest section of the property may be indicative of lead mineralization in this area.

Mineralization on the property consists of chalcocite, malachite and azurite in a brecciated dolomite matrix. It is interesting to note that a mineralized outcrop on claim Rose #1, where the highest assay values on the property have been found, there is a very weak geochemical expression in the soil and vegetation. This feature strengthens the importance of other high anomalies.

Recommendations for future work include detailed geological mapping, trenching, geophysics, and drilling.





CORNWALLIS ISLAND, Northwest Territories

Negotiations have been underway with Canada Northwest Land Limited to acquire a 50% interest in a 27,720 acre mineral permit approximately 40 miles northeast of the Arctic supply center of Resolute.

The acreage has been mapped photogeologically, ground checked and geochemically prospected. In addition to a number of anomalous lead and zinc geochem values, a small outcrop of lead/zinc mineralization (20% combined) was found in the Eleanor Lake area.

It is planned to run a number of gravity profiles across the showing as well as over several of the geochem anomalies. (The gravimeter is reported to have been effective in defining the Polaris and Eclipse ore bodies being investigated by the Cominco/Bankeno team on adjacent Little Cornwallis.) The program will cost about \$10,000 and Rio Alto's share will be 50%.

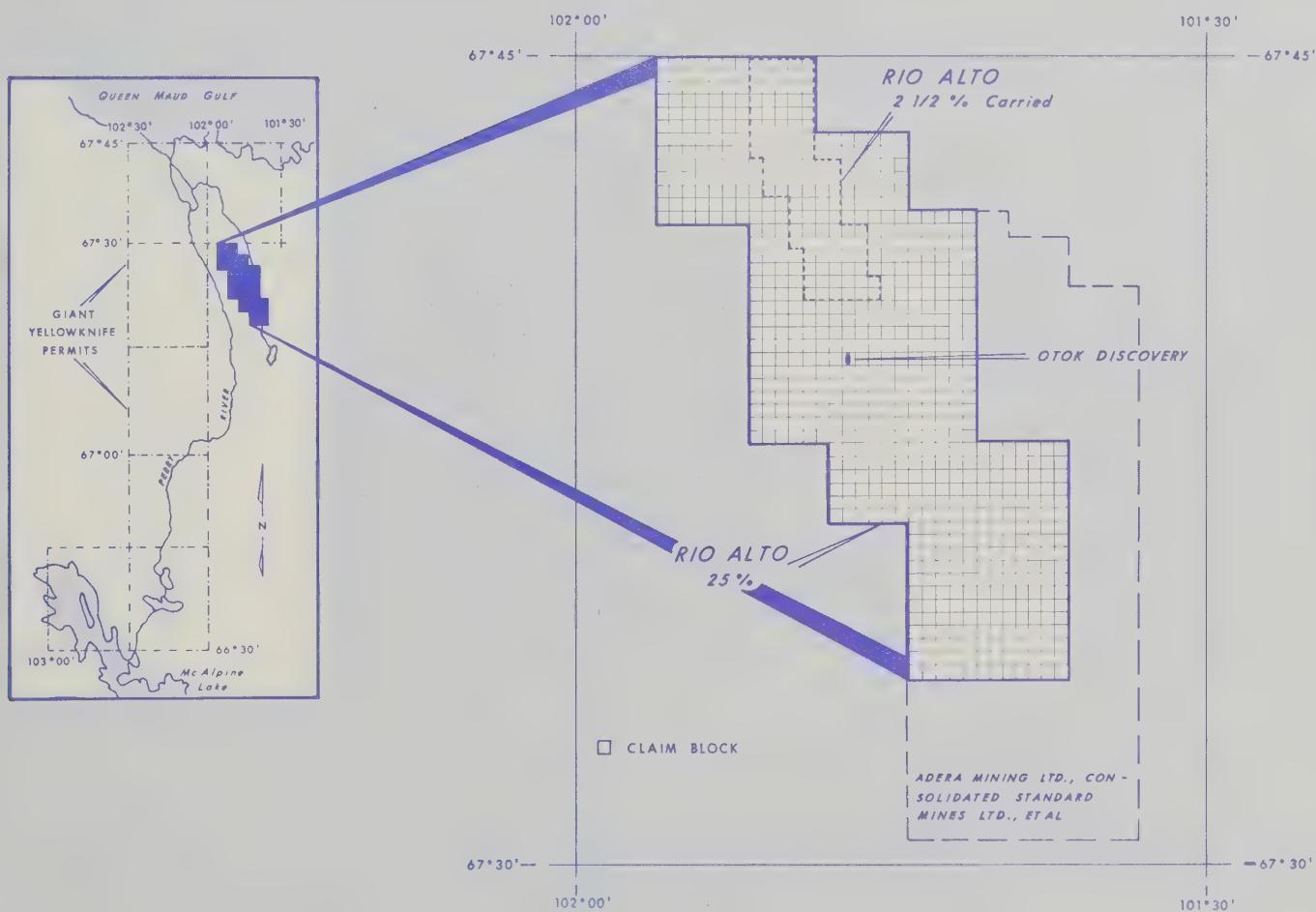
PERRY RIVER, Northwest Territories — Rio Alto Interest 25%

Rio Alto participated in the staking of 768 claims during the summer and fall of 1971. The property is located in the district of Keewatin, N.W.T., about 21 miles due south of the Arctic Coast (Queen Maud Gulf).

A geological field party headed by Gren Thomas, B.Sc., geologist, grubstaked by Rio Alto and Savanna Creek Gas & Oil Limited, discovered a significant copper-nickle occurrence in July of 1971. Thirty-nine claims, called the Otok Group, were staked over the showing. Subsequent to photogeological mapping and a study by Mr. J. Chamberlain, P.Eng., Ph.D., additional claims were staked to bring the total to 768 claims.

Giant Yellowknife Mines Ltd., the owner of seven mineral exploration permits offsetting the Rio Alto claims, has conducted an extensive airborne survey over their permits and is now starting a drilling program with four drills to evaluate anomalies discovered by their survey.

Canada Southern Petroleum Ltd. has acquired 100 claims north of the Otok discovery and Adera Mining Ltd. teamed with Consolidated Standard Mining Limited to stake 500 claims east and south of the Rio Alto property. Additional activity is expected in the area by the four companies this summer. It is Rio Alto's intention to participate with its partner during the summer of 1972 in a program consisting of prospecting and geological mapping over the new claims and ground geophysics over the showing. If warranted, this program will be followed up by diamond drilling.



RIO ALTO EXPLORATION LTD. • BALANCE SHEET • DECEMBER 31, 1971

	ASSETS	
	1971	1970
CURRENT ASSETS		
Cash	\$ 1,726	\$ 7,654
Term certificate	10,000	—
Accounts receivable	24,784	1,420
Share subscriptions receivable	17,430	2,000
Funds in lawyers' trust account	100,000	—
Refundable deposit	<u>12,500</u>	<u>—</u>
	<u>166,440</u>	<u>11,074</u>
MINING PROPERTIES AND CLAIMS (NOTE 1)	<u>70,286</u>	<u>70,350</u>
OTHER		
Deferred exploration and other expenditures —	68,889	21,938
Incorporation and reorganization costs	<u>—</u>	<u>2,066</u>
	<u>68,889</u>	<u>24,004</u>
	<u><u>\$ 305,615</u></u>	<u><u>\$ 105,428</u></u>

LIABILITIES

1971 1970

CURRENT LIABILITIES

Accounts payable	\$ 105,472	\$ 3,310
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SHAREHOLDERS' EQUITY

CAPITAL STOCK (NOTE 2)

Authorized

3,000,000 shares of no par value

Issued

1,300,000 shares	196,000	100,000
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Retained earnings

4,143	2,118
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200,143	102,118
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305,615	105,428
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Approved on behalf of the Board,

Julio Poscente, Director

Douglas W. Hilland, Director

The accompanying notes are an integral part of these financial statements.

AUDITORS' REPORT

To the Shareholders
Rio Alto Exploration Ltd.

We have examined the balance sheet of Rio Alto Exploration Ltd. as at December 31, 1971 and the statements of deferred exploration and other expenditures, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Calgary, Alberta
March 21, 1972

COLLINS LOVE EDDIS VALIQUETTE & BARROW
CHARTERED ACCOUNTANTS

STATEMENT OF DEFERRED EXPLORATION AND OTHER EXPENDITURES
YEAR ENDED DECEMBER 31, 1971

	Deferred December 31, 1970	Expenditures for the year	Charge to Retained Earnings	Deferred December 31, 1971
Exploration				
Exploration management and supervision, consulting and reporting	\$ 6,244	\$ 9,184	\$ 1,680	\$ 13,748
Geological and field expenses	8,984	48,076	6,785	50,275
Assaying	1,025	2,884	909	3,000
Government fees and rentals	562	983	10	1,535
Sundry	314	17	-	331
	<u>17,129</u>	<u>61,144</u>	<u>9,384</u>	<u>68,889</u>
Administration				
Administration charges				
Geochemical programs	1,800	-	1,800	-
General	1,860	5,500	7,360	-
General overhead and sundry	1,149	6,497	7,646	-
	<u>4,809</u>	<u>11,997</u>	<u>16,806</u>	<u>-</u>
	<u>\$ 21,938</u>	<u>\$ 73,141</u>	<u>\$ 26,190</u>	<u>\$ 68,889</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1971

(with comparative figures for period May 13, 1970 to December 31, 1970)

	1971	1970
Balance, beginning of period	\$ 2,118	\$ -
Add: Preproduction royalties and proceeds from sale of interests in mining properties (note 3)	<u>46,900</u> <u>49,018</u>	<u>12,272</u> <u>12,272</u>
Deduct: Capital costs of mining properties disposed	7,544	8,310
Deferred exploration applicable to mining properties disposed	9,384	1,404
Incorporation, reorganization and administration costs written off	27,947	-
Sundry	-	440
	<u>44,875</u>	<u>10,154</u>
Balance, end of period	<u><u>\$ 4,143</u></u>	<u><u>\$ 2,118</u></u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
YEAR ENDED DECEMBER 31, 1971

(with comparative figures for period May 13, 1970 to December 31, 1970)

	1971	1970
Source of funds		
Sale of capital stock	\$ 96,000	\$ 100,000
Less: Issued on acquisition of properties	-	73,500
Issued for cash	<u>96,000</u>	<u>26,500</u>
Reproduction royalties and proceeds from sale of interests in mining properties (note 3)		
Ram River area	6,000	6,000
Nordegg area	12,000	-
Clearwater area	<u>28,900</u>	<u>6,272</u>
	<u>46,900</u>	<u>12,272</u>
Proceeds from sale of automotive equipment	-	110
	<u>142,900</u>	<u>38,882</u>
Application of funds		
Purchase of mining properties and claims	7,480	78,660
Less: Acquired by the issuance of capital stock	-	73,500
	<u>7,480</u>	<u>5,160</u>
Deferred exploration and other expenditures	73,141	23,342
Purchase of automotive equipment	-	550
Incorporation and re-organization costs	<u>9,075</u>	<u>2,066</u>
	<u>89,696</u>	<u>31,118</u>
Increase in working capital	53,204	7,764
Working capital, beginning of year	<u>7,764</u>	-
Working capital, end of year	<u>\$ 60,968</u>	<u>\$ 7,764</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1971

1. Mining properties and claims

	Acquired for Cash	Shares	Total
Province of British Columbia			
Balance, January 1, 1971	\$ 2,050	\$ 37,000	\$ 39,050
Cost of additions	1,196	-	1,196
Balance, December 31, 1971	<u>3,246</u>	<u>37,000</u>	<u>40,246</u>
Province of Alberta			
Balance, January 1, 1971	800	23,000	23,800
Cost of additions	6,284	-	6,284
	7,084	23,000	30,084
Cost of disposals	3,544	4,000	7,544
Balance, December 31, 1971	<u>3,540</u>	<u>19,000</u>	<u>22,540</u>
Province of Saskatchewan			
	-	7,500	7,500
	<u>\$ 6,786</u>	<u>\$ 63,500</u>	<u>\$ 70,286</u>

2. Capital Stock

(a) Capital stock outstanding at December 31, 1971 is as follows:

	Number of Shares	Stated Value
For mining properties and claims	735,000	\$ 73,500
For cash	<u>565,000</u>	<u>122,500</u>
	<u>1,300,000</u>	<u>\$ 196,000</u>

(b) Pursuant to a prospectus dated April 27, 1971, the company issued 300,000 shares at a net price of 32 cents per share.

3. Material agreements

By agreement dated May 1, 1970, the company earned the right to a minimum of \$6,000 per year in advance royalties on future coal production from properties in the Ram River area of the Province of Alberta disposed of on that date. These advance royalties are to be considered part of a 12 cent per short ton overriding royalty payable to the company if and when production is commenced.

By agreement dated May 23, 1970, the company earned the right to a minimum of \$12,000 per year in advance royalties on future coal production from properties in the Nordegg area of the Province of Alberta disposed of on that date. These advance royalties are to be considered part of a 12 cent per short ton overriding royalty payable to the company if and when production is commenced.

By agreement dated October 27, 1971, the company disposed of its share of properties in the Clearwater area of the Province of Alberta for a cash consideration of \$28,900. The company retains an interest in this land after production is commenced in the form of a royalty of approximately 2 cents per ton, until Clearwater Coal Ltd. recovers their direct exploration and mining costs incurred together with the cost of any plant constructed to process coal, and thereafter approximately 5 cents per ton.

By agreement dated December 17, 1971, the company agreed to acquire the shares of a private company for \$50,000 cash and 200,000 shares of the company valued at 50 cents each. The proposed acquisition has not been recorded in the accounts at December 31, 1971.

